Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps	)	
	)	
Access Charge Reform	)	**CC Docket No. 96-262**
	)	
Price Cap Performance Review for Local Exchange Carriers	)	**CC Docket No. 94-1**
	)	

WORLDCOM COMMENTS

WorldCom, Inc. (WorldCom) hereby submits its comments on the cost studies submitted by the incumbent local exchange carriers (ILECs) in the above-captioned proceeding.

The Commission should allow the residential SLC cap to increase as scheduled, in order to achieve the <u>CALLS Order</u>=s[1] goals of eliminating the carrier common line (CCL) charge and phasing out the multiline business Presubscribed Interexchange Carrier Charge (PICC). As the Commission found in the <u>CALLS Order</u>, the CCL and PICC constitute implicit subsidies that are inconsistent with Section 254 of the Act.

To the extent that the Commission=s decision to allow the SLC cap to increase as scheduled is informed by the forward-looking cost of retail voice grade access to the

[1]Access Charge Reform, <u>Sixth Report and Order</u>, CC Docket No. 96-262, released May 31, 2000 (<u>CALLS Order</u>).

public switched telephone network, that cost should be estimated using a cost model and inputs whose accuracy can be evaluated by the Commission and interested parties. The Commission should give no weight to the ILECs= cost submissions because the ILECs have provided only a cursory description of their models and inputs and because it is clear that their models and inputs are inconsistent with well-established Commission standards for estimating forward-looking cost.

I. The Commission Should Allow the Residential SLC Cap to Increase as Scheduled

In the CALLS Order, the Commission stated that it would Areview any increases to residential and single-line business SLC caps above $5.00 to verify that any such increases are appropriate and reflect higher costs where they are to be applied.@[2] The Commission stated that it would Ainitiate and complete a cost review proceeding prior to any scheduled increases above this cap taking effect to determine the appropriate SLC cap.@[3] The Commission stated further that the Aprice cap ILECs [had] agreed to provide, and the Commission would examine, forward-looking cost information associated with the provision of retail voice grade access to the public switched telephone network.@[4]

[2] CALLS Order at & 83.

[3] Id.

[4] Id.

Notably, the Commission declined to articulate the standard that it would employ to determine whether the scheduled SLC cap increase was appropriate.[5] While the Commission promised to examine the ILECs= forward-looking cost information, the Commission did not adopt a forward-looking cost standard or assign any particular weight to the ILECs= cost submissions. The Commission deferred decisions concerning the scope of the cost review study and the specific information to be examined to the initiation of the cost review proceeding.[6]

In determining whether the scheduled increase in the residential SLC cap is appropriate, the Commission should look in the first instance to the principles underlying the CALLS Order. As an initial matter, the framework adopted in the CALLS Order did not depart significantly from the Commission=s longstanding embedded-cost approach to ratemaking. In particular, the Aprice cap CMT revenue@ that is used to determine a price cap ILEC=s maximum SLC, PICC, and CCL rates is still based on the accounting and cost allocation rules used to develop the access rates to which the price cap formulae were originally applied.[7]

At the level of CMT revenue permitted by the CALLS Order, the current $5.00 SLC cap is, in many instances, below the level necessary for full recovery of the

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[5] CALLS Order at & 84.

[6] Id.

[7] 47 C.F.R. '' 61.3(d); 61.3(cc). See also CALLS Order at & 17.

ILEC=s CMT revenue. As a result, the price cap ILECs continue to recover a significant portion of their allowed CMT revenue through the multiline business PICC and the CCL. Tariff Review Plan data shows that the price cap ILECs currently recover approximately $650 million in CMT revenues through the PICC and approximately $150 million through the CCL.

The scheduled increase in the residential SLC cap is both appropriate and necessary in order to achieve the CALLS Order=s goal of eliminating the CCL and phasing out the multiline business PICC. As the Commission explained in the CALLS Order, the CCL and the multiline business PICC constitute an implicit non-portable subsidy inconsistent with Section 254 of the Act.[8] Unless the Commission acts to reduce allowed CMT revenues, the CALLS Order=s goal of eliminating the CCL and phasing out the multiline business PICC can be achieved under current price cap rules only by allowing the residential SLC cap to increase.

The phaseout of the multiline business PICC is not only required by Section 254 but is also required by developments in the interexchange market since the adoption of the CALLS Order. With the entry of the RBOCs into the interLATA market, interexchange carriers that operate on a national basis are increasingly competing against carriers whose customer base is concentrated in particular areas. Because the Commission has indicated that Section 254(g) requires national IXCs to recover PICC costs on a nationally-averaged basis,[9] such national IXCs are at a disadvantage when

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[8]CALLS Order at && 106, 111-112.

[9]Access Charge Reform, First Report and Order, CC Docket No. 96-262, released

competing against RBOCs such as SBC that operate primarily in states where the multiline business PICC is below the national average or even zero.[10] Such distortions of the interexchange market should be addressed by continuing the multiline business PICC phaseout contemplated by the CALLS Order. Notably, the Commission committed to taking competition in the IXC market into account in this cost review proceeding.[11]

The scheduled increase in the residential SLC cap would not violate the principle set forth in Section 254(b) that consumers in all regions of the nation would have affordable access to telecommunications and information services at rates that are reasonably comparable to those services in urban areas.[12] There is no evidence that the

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May 16, 1997, at && 97-98.

[10]The three states where SBC has received in-region interLATA authority -- Texas, Arkansas, and Oklahoma -- are in SWBT territory. SWBT=s multiline business PICC has been reduced to zero. SWBT Tariff FCC No. 73, Section 3.4.2 (A).

[11]CALLS Order at & 109.

[12]CALLS Order at & 85.

SLC increases that have already occurred as a result of the CALLS Order have harmed subscribership rates.[13] And the CALLS rules provide for additional Lifeline support so that low-income subscribers will not be hurt by increases to the primary residential SLC cap.[14]

If the Commission determines that the forward-looking cost of providing retail voice grade access to the public switched telephone network should inform its decision concerning the scheduled SLC cap increase, the Commission should balance such forward-looking cost considerations for residential lines against the CALLS Order=s goal of eliminating the CCL and phasing out the multiline business PICC. The $6.50 SLC cap, while in many instances higher than the ILECs= forward-looking cost, strikes a reasonable balance by eliminating much of the multiline business PICC while at the same time limiting the differential between the residential SLC and forward-looking cost. In particular, the $6.50 residential SLC cap ensures that the differential between the SLC and forward-looking cost is far smaller for residential customers than for multiline business customers, whose SLCs are subject to a $9.20 SLC cap.

[13]The most recent subscribership report showed no change in subscribership rates following the increase in the residential SLC cap from $3.50 to $4.35. Industry Analysis Division, Telephone Subscribership in the United States, released November, 2001, at 1.

[14]CALLS Order at & 33.

II. The Commission Should Give No Weight to the ILECs= Submissions

Even if the Commission decides that forward-looking cost estimates should inform its decision concerning the scheduled SLC increase, the Commission should give no weight to the ILECs= cost submissions because, with the exception of Sprint and Cincinnati Bell, the ILECs have failed to provide their cost models or inputs for the Commission and interested parties to review. Among other things, the Commission cannot determine whether the ILECs= structure sharing, fill factor, structure cost, and cable cost input values are appropriate for estimating forward-looking cost.

The Commission has consistently declined to give any weight to cost model outputs unless the models used to generate those outputs are available for review by the Commission and interested parties. In the Open Network Architecture (ONA) proceedings, for example, the Commission required that the ILECs file the SCIS model with the Commission.[15] Similarly, in the 800 Database and Local Number Portability proceedings, the Common Carrier Bureau required any LEC using a computer model to disclose its model on the record,[16] and placed the burden on the ILECs to explain fully all of the inputs, algorithms, and assumptions of such models.[17] In the universal service

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[15]Commission Requirements for Cost Support Material To Be Filed with Open Network Architecture Access Tariffs, Order, 6 FCC Rcd 5682 (1991).

[16]800 Data Base Access Tariffs and the 800 Service Management System Tariff, Order, 9 FCC Rcd 715, 718 & 15 (1994); Telephone Number Portability Cost Classification Proceeding, Memorandum Opinion and Order, 13 FCC Rcd 24495, 24515-24516 (1998).

[17]Telephone Number Portability Cost Classification Proceeding, Memorandum Opinion and Order, 13 FCC Rcd 24495, 24515-24516 (1998).

proceeding, the Commission ordered that A[t]he cost study or model and all underlying data, formulae, computations, and software associated with the model must be available to all interested parties for review and comment.@[18]

Furthermore, even the cursory documentation that the ILECs have provided is sufficient to reveal that certain inputs used by the ILECs are inappropriate. Even if the lack of documentation were not sufficient to justify rejection of the ILECs= cost submissions, the Commission would have to reject those submissions because the ILECs have used methodologies and inputs that are inconsistent with Commission standards governing forward-looking cost models.

For example, the ILEC cost submissions reveal that the ILECs= models generally use the ILECs= Afinancial@ depreciation rates,[19] rather than Commission-prescribed depreciation rates. In the universal service proceeding, the Commission rejected the use of ILEC financial deprecation rates, finding that the projected life values used by the ILECs for financial reporting purposes were inappropriate for use in the Synthesis Model.[20] In most cases, state commissions have also rejected the use of ILEC financial depreciation rates in determining unbundled network element (UNE) prices under the Commission=s TELRIC standard.[21]

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[18]Federal-State Joint Board on Universal Service, Report and Order, CC Docket No. 96-45, released May 8, 1997, at & 250.

[19]Verizon submission, Attachment D at 1.

[20]Federal-State Joint Board on Universal Service, Tenth Report and Order, CC Docket No. 96-45, released November 2, 1999, at & 429.

[21]See Letter from Mary L. Brown, WorldCom to Lawrence E. Strickling, FCC,

To the extent that the Commission finds that the forward-looking cost of voice grade access to the public switched telephone network should inform its decision concerning the scheduled residential SLC cap increase, the Commission should rely on the Commission=s Synthesis Model or, to a lesser extent, state-approved UNE prices. In contrast to the ILECs= submissions, Athe Commission and its staff have undertaken a thorough review of the [Synthesis] model and its input values@ and have Acoordinated with and received substantial input from the Joint Board staff and interested outside parties.@[22] As a result, the Commission has been Aconvinced that [the Synthesis Model] generates reasonably accurate estimates of forward-looking costs . . . .@[23]

If the Commission decides in this proceeding to permit the residential SLC cap increase to go ahead as scheduled, the Commission should make clear that the ILECs= cost submissions played no role in that decision. Unless the Commission makes clear that it did not rely on the ILECs= submissions, the ILECs will no doubt claim that the decision to allow the residential SLC cap to increase indicates Commission Aapproval@ of the ILECs= cost estimates, models and inputs. But the lack of model and input documentation and the evident deficiencies in the ILECs= models requires the Commission to either reject the ILECs= cost estimates or, at a minimum, decline to give any weight to those estimates.

June 9, 2000, CC Docket No. 98-137, at 4-6.

[22]Tenth Universal Service Order at & 23.

[23]Id.

III. Conclusion

For the reasons stated herein, the Commission should permit the residential SLC cap to increase as scheduled. However, in reaching that decision, the Commission should give no weight to the ILECs= cost submissions.

Respectfully submitted,
WORLDCOM, INC.

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CERTIFICATE OF SERVICE

I, Barbara Nowlin, do hereby certify that copies of the foregoing Comments were sent via first class mail to the following on this 24th Day of January, 2002.

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